PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

MEMORANDUM

TO: Watertown Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule

DATE: December 6, 2022

This Commission is hereby furnishing you with approval of the funding schedule you recently adopted (copy enclosed). The schedule is effective in FY23 (the FY23 amount was maintained from the prior schedule) and FY24 only and is acceptable under Chapter 32.

As of January 1, 2022, the plan is overfunded with a funded ratio of 103.6%. The prior funding schedule included the normal cost and a small amortization payment so that the plan would gradually maintain a funded level of 105%. This schedule shows no appropriation for FY24 and beyond. Although we do not recommend it, we will allow the schedule in FY24, but the system will need to complete a valuation as of January 1, 2023 to determine the appropriation for FY25. We do not recommend reducing the appropriation so drastically when a system attains 100% funding. Instead, we recommend a more gradual reduction and/or an appropriation of at least the normal cost until the plan is more significantly overfunded, to mitigate potential investment and/or demographic losses. We note that the PRIM return through October 31, 2022 was approximately -12.6%.

In addition, as we have indicated in past approval letters, we continue to have concerns regarding the plan assumptions. The actuarial assumptions used are among the least conservative of any Chapter 32 system. The System reduced the investment return assumption to 7.70% (from the 7.75% investment return assumption used in the 2021 valuation). Only four systems use a greater assumption. We have generally recommended an assumption between 6.75% and 7.0% for our 2022 local system valuations. For comparison, there are 61 systems currently using an assumption of 7.0% or lower. There are 87 systems using an assumption of 7.25% or lower. Your 7.70% assumption is significantly outside the high end of PERAC's reasonable range (7.35%) as of January 1, 2022. If PERAC were the actuary for your plan, we would need to disclose the principal valuation results using our recommended assumption.

Likewise, the salary increase assumption is among the lowest in the state. Only 7 other systems use an assumption of 3.5% or lower in valuations. The mortality assumption projects generational mortality improvement only though 2025. This is not the case for most Massachusetts public plans and it is our understanding that this is not common practice for other public plans.

For comparison, we estimate that using a 7.0% investment return assumption and our standard PERAC salary increase and mortality assumption, the actuarial liability would increase by more than $26 million. On this basis there would be an unfunded actuarial liability (UAL) of approximately $17 million and the plan would be 94% funded. On this basis we would expect the FY24 appropriation to be over $3 million (normal cost plus amortization of UAL).

The schedule reflects an increase in the COLA base from $13,000 to $14,000.

We are available to discuss these issues further. If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

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Enc.

Appropriation Forecast

Fiscal Year Ending	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Unfunded Accrued Liability	Funded Ratio %**
2023	$3,474,217	$832,863	$474,700	$1,307,563	3.4	($9,146,475)	103.6
2024	$3,655,828	$821,923	($821,923)	$0	0.0	($10,389,263)	104.1
2025	$3,846,410	$808,776	($808,776)	$0	0.0	($10,341,090)	104.0
2026	$4,046,389	$793,262	($793,262)	$0	0.0	($10,303,367)	103.9
2027	$4,256,211	$775,213	($775,213)	$0	0.0	($10,279,448)	103.8
2028	$4,476,346	$754,450	($754,450)	$0	0.0	($10,273,126)	103.7
2029	$4,707,281	$730,786	($730,786)	$0	0.0	($10,288,679)	103.7
2030	$4,949,529	$704,023	($704,023)	$0	0.0	($10,330,915)	103.6
2031	$5,203,625	$673,948	($673,948)	$0	0.0	($10,405,228)	103.6
2032	$5,470,130	$640,341	($640,341)	$0	0.0	($10,517,653)	103.6
2033	$5,749,629	$602,968	($602,968)	$0	0.0	($10,674,930)	103.6
2034	$6,042,735	$561,580	($561,580)	$0	0.0	($10,884,568)	103.6
2035	$6,350,091	$515,916	($515,916)	$0	0.0	($11,154,923)	103.6
2036	$6,672,367	$465,700	($465,700)	$0	0.0	($11,495,276)	103.6
2037	$6,939,262	$484,329	($484,329)	$0	0.0	($11,915,918)	103.7
2038	$7,216,832	$503,702	($503,702)	$0	0.0	($12,348,886)	103.7
2039	$7,505,506	$523,850	($523,850)	$0	0.0	($12,794,328)	103.8
2040	$7,805,726	$544,804	($544,804)	$0	0.0	($13,252,370)	103.8
2041	$8,117,955	$566,596	($566,596)	$0	0.0	($13,723,113)	103.8
2042	$8,442,673	$589,260	($589,260)	$0	0.0	($14,169,569)	103.8
2043	$8,780,380	$612,830	($612,830)	$0	0.0	($14,625,993)	103.8
2044	$9,131,595	$637,343	($637,343)	$0	0.0	($15,092,177)	103.8
2045	$9,496,859	$662,837	($662,837)	$0	0.0	($15,567,856)	103.8
2046	$9,876,734	$689,350	($689,350)	$0	0.0	($16,052,705)	103.7
2047	$10,271,803	$716,924	($716,924)	$0	0.0	($16,546,334)	103.7
2048	$10,682,675	$745,601	($745,601)	$0	0.0	($17,048,274)	103.6
2049	$11,109,982	$775,426	($775,426)	$0	0.0	($17,557,979)	103.5
2050	$11,554,381	$806,443	($806,443)	$0	0.0	($18,074,810)	103.4
2051	$12,016,556	$838,700	($838,700)	$0	0.0	($18,598,031)	103.3
2052	$12,497,219	$872,248	($872,248)	$0	0.0	($19,126,799)	103.2
2053	$12,997,107	$907,138	($907,138)	$0	0.0	($19,660,152)	103.1
2054	$13,516,992	$943,424	($943,424)	$0	0.0	($20,196,996)	103.0

** Beginning of Fiscal Year